

Information Item

Educational Policy and Programs Committee

A Review of California Student Aid Programs and Issues

This item provides a general overview of student financial aid in California and prepared in response to Commissioners' expressed interest in the subject. In addition to the staff's presentation of the item, the Executive Director of the California Student Aid Commission, Wally Boeck, will provide the Commissioners with an update and overview of the State's revamped Cal Grant program.

Presenter: Karl M. Engelbach.



A REVIEW OF CALIFORNIA STUDENT FINANCIAL AID PROGRAMS AND ISSUES

THIS REPORT provides a brief, general overview of the current structure of financial aid in California. This report responds to Commissioners' interest in California's existing and revamped student financial aid programs.

In the past, the Commission has made clear its belief in the importance of linking student fee and financial aid policies. It concluded that it is not appropriate to pursue a student fee policy without a companion policy on student financial aid. A financial aid policy is necessary to address the needs of all students, since some lack the resources to cover student fees. In 1994, when it adopted student-fee policy recommendations for the State's public universities, the Commission also adopted a set of principles to guide the development of a long-term California student aid policy. Those principles are presented in Display 2 on the following page.

Determining eligibility for financial aid

Financial aid is awarded to students in one of three forms: (1) grants/scholarships/waivers, which do not need to be repaid; (2) student loans, which must be repaid; and (3) work-study, which must be earned by the student. Currently in California, the largest portion of aid -- about 55 percent -- is in the form of loans, primarily from the federal guaranteed student loan program..

Students generally apply for need-based student financial aid by completing the Free Application for Federal Student Aid, or FAFSA. This federally sponsored form includes questions on the applicant's educational plans as well as his or her family's financial resources. Once completed, the application is sent to a central processor, which places the applicant's information in electronic form that can then be used by the various entities administering financial aid to determine aid eligibility.

Federal law and regulation dictate the calculation of a student's eligibility for need-based financial aid. The process for determining eligibility for aid includes the following three steps, presented pictorially in Display 1:

DISPLAY 1 Determination of Eligibility for Need-Based Financial Aid

$$\begin{aligned} &\textbf{Student Budget} \\ &\textbf{-Expected Family Contribution} \\ &= \textbf{Amount of Financial} \\ &\quad \textbf{Aid Eligibility} \end{aligned}$$

1. A student budget is determined for each applicant. This budget represents an estimate of

DISPLAY 2 Principles to Guide Development of a Long-Term Financial Aid Policy

1. The primary purpose of State- and student-funded financial aid programs should be to further California's goals of providing access and encouraging student achievement in its public and independent colleges and universities. Specifically:
 - 1.1 State and student-funded financial aid programs should be designed to ensure that all State citizens -- regardless of economic circumstances -- have equal access to the educational opportunities offered by California's public and independent colleges and universities.
 - 1.2 State- and student-funded financial aid programs should be designed to assist students in making timely and satisfactory progress toward their educational objectives.
 - 1.3 Financial aid programs should provide qualified students with an ability to choose among the variety of California's higher education institutions without regard to the tuition/fees charged by the institution.
2. California's student financial aid policy should recognize the total cost of attendance, not simply the fee level;
3. California's student aid program should supplement the federal Pell Grant program and privately funded, non-institutional financial assistance that a student may receive;
4. In addition, the policy should reflect that, for financially needy students, financing the cost of college attendance is a shared responsibility. The student and his/her family, the State, and the Federal government should all share the responsibility for financing the costs of college attendance for needy students. Further, each of these parties should be required to provide some portion of support depending upon the student's level of financial need;
5. The policy should provide that the largest grants be awarded to those students who demonstrate the greatest financial need; and
6. Finally, the policy should ensure that all students with the same level of financial need are treated equitably regardless of the system in which they are enrolled.

Source: The Restructuring of California's Financial Aid Programs and Its Short-Term Aid Policy, Commission Report 93-7, April 1993.

the student's cost of attending a postsecondary institution (tuition, fees, room, board, books, transportation, and miscellaneous fees) and accounts for the student's living situation (e.g. living on campus vs. living with parents)

2. Students and their families (including parents if the student is a dependent student) complete the FAFSA, which gathers such information as family income, size, and assets (excluding home equity), and the number of family members in college. Federal methodology is then used to determine the level of support that the family is expected to contribute to support the student's education. This amount is referred to as the "Expected Family Contribution" or "EFC."
3. Eligibility for need-based financial aid is then determined by subtracting the Expected Family Contribution (EFC) from the student budget. The result represents the gap between the amount that the student and his/her family is expected to contribute to educational expenses and the estimated educational expenses of the student.

Financial aid programs assisting California students

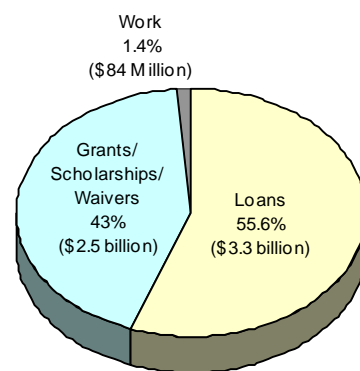
Once eligibility for financial aid is determined, a financial aid "package" is assembled for the applicant by institutions to which he or she has applied. The package typically consists of different types of aid funded

from different sources and administered by different agencies. The amount of aid may vary by institution and the applicant may accept either all or part of the package.

Types of student aid

Approximately \$6 billion in student financial aid was awarded to California students in 1998-99. The overwhelming majority of financial assistance awarded to California students comes in the form of grants/scholarships/waivers or loans. Display 3 shows the estimated distribution of financial aid by type in California for 1998-99. The percentage of student financial aid coming in the form of grants/scholarships/waivers (43 percent) has declined by approximately five percentage points from five years ago, loan aid (55 percent) has grown by about 5 percent, while work aid (1.4 percent) has remained relatively unchanged.

DISPLAY 3 *Estimated 1998-99 Financial Aid Awarded to California Students by Type*

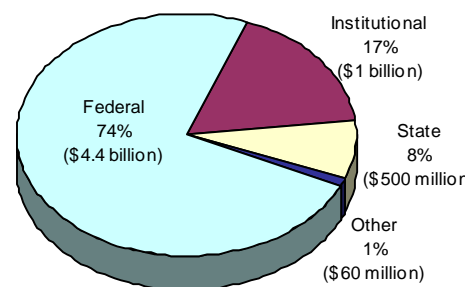


Source of student aid

Just as there are multiple types of financial aid, aid is funded from multiple sources. As Display 4 shows, most aid received by California students comes from federal sources. If one counts the federal guaranteed student loan program aid as federally funded aid, then nearly three-quarters of all student financial aid received by California students in 1998-99 was federally supported. The State's General Fund appropriations account for only 8 percent of aid, while aid awards made by institutions constituted about 17 percent of the total assistance received.

The three types of aid funded through different resources are administered through numerous programs. Students can, for example, receive grants through several different programs concurrently. Some of the larger financial aid programs through which California students receive aid are outlined below:

DISPLAY 4 *Estimated 1998-99 Financial Aid Awarded to California Students by Source*



Grant aid

In 1998-99, California students were projected to receive over \$2.5 billion in grant/scholarship/waiver assistance. These grants are awarded

through a number of different programs that are generally funded by the federal government, the State of California, or institutions. The major grant programs are described below and arrayed in Display 5 by major funding source and entity that determines eligibility.

DISPLAY 5 Large Grant Programs Available to California Students Displayed by Major Funding Source and Entity that Determines Initial Eligibility

<u>Funding Source</u>	<u>Determiner of Eligibility</u>		
	<u>Federal Government</u>	<u>State of California</u>	<u>Campus</u>
Federal	Pell Grants	--	SEOG
State	--	Cal Grants	Institutional Grants
Institution	--	--	Institutional Grants

Pell Program: This is the major federally supported student grant program. The federal government determines a student's eligibility for this grant which a student may use at any eligible institution. In 2000-01, the federal government funded a maximum Pell Grant of \$3,300, although the federal policy authorizes a higher maximum Pell Grant award level. The program was estimated to provide needy California students with nearly \$900 million in assistance in 1998-99, or approximately one-third of all grant/scholarship/waiver assistance.

Supplemental Educational Opportunity Grant (SEOG) Program: Through this federal program, federal grant dollars are distributed to institutions, and the institutions provide matching funds. Institutions then award grants to their needy students consistent with federal regulations and requirements. Needy California students were estimated to receive over \$70 million through this program in 1998-99, or approximately 3 percent of all grant/scholarship/waiver assistance.

Cal Grant Program: The Cal Grant program is a State-supported program that is administered by the California Student Aid Commission (CSAC) and funded largely through the State General Fund. Students apply to CSAC, and CSAC determines eligibility for Cal Grants. Recipients are able to use those grants at any eligible California institution of their choice. Cal Grant funding totaled over \$325 million in 1998-99, and was projected to constitute about 13 percent of all grant/scholarship/waiver assistance in California.

Institutional Grants: These grants are supported by institutional funding or, in the case of public institutions, some combination of State General Fund and other resources. A large part of this funding is discretionary, particularly at the State's private and independent institutions. Students apply to the institutions for these grants, and the institutions award the grants to their students. Most awards are made to students based on financial need, while others are made to students on other bases, such as

academic merit. This aid totaled \$1.2 billion in 1998-99, and was projected to constitute about 48 percent of grant/scholarship/waiver assistance in California

Loan programs

The primary source of loans for California students is the federal student loan programs. While the programs have undergone significant structural and administrative changes over the past several years, the types of loans available to students and the manner in which students' eligibility is determined has not changed significantly. There are three large federal guaranteed student loan programs:

- ◆ Subsidized Stafford Loan Program: This loan program is reserved for financially needy students. The federal government covers interest costs as long as borrowers are enrolled in college at least half time and for a six-month grace period thereafter (this is known as the in-school interest subsidy).
- ◆ Unsubsidized Stafford Loan Program: This is a non-need based, federally guaranteed loan program. These loans differ from Subsidized Stafford loans in that there is no in-school interest subsidy. That is, interest on an unsubsidized loan begins to accrue while the borrower is in school. The borrower then has the option of making payments while in school or capitalizing the interest.
- ◆ Parent Loans for Undergraduate Students (PLUS loans): Like the Unsubsidized Stafford Loan program, this program is non-need-based and has no in-school interest subsidy. Borrowers in this program -- parents of dependent undergraduate students -- begin repayment of the loan shortly after it is disbursed, and the interest rate is currently at its cap of 9 percent.

These three programs are administered through either the Federal Family Educational Loan Programs (FFELP) or the Federal Direct Lending program. Schools may generally choose whether to participate in FFELP or the Direct Lending program. Loans made through the FFELP program are made by private lenders and guaranteed by the federal government through guarantee agencies, such as the California Student Aid Commission/EdFUND. Loans made through the Direct Loan Program are made by the federal government with federal capital through individual campuses and do not involve either lenders or guarantee agencies.

In addition to these federal loan programs, two other loan programs include:

- ◆ Perkins Loan Program: This is a small program administered on a campus level that was started with federal funding. Institutions have provided a match to the original federal funding plus all additional federal contributions. Campuses make low-interest loans (5 percent)

and use the proceeds from repayment of loans to make additional loans.

- ♦ **The Cal Loan Program:** California currently has a relatively small student loan program in place. That program, which is administered by the State Treasurer's Office, assists primarily those students who have maximized their borrowing under the federal student loan programs. The relatively small number of students participating in the State program typically attend higher-cost independent and private colleges and universities in the State and have maximized their borrowing under other loan programs.

Work-study programs

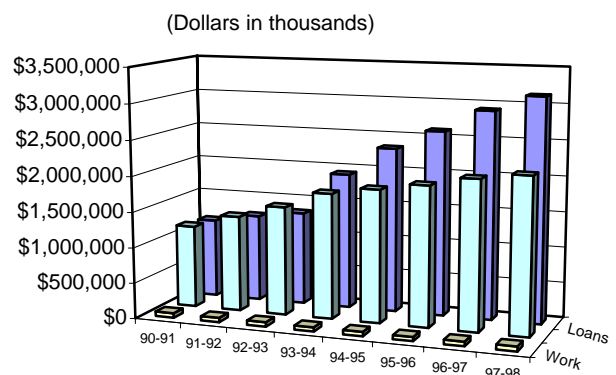
Through work-study programs, students receive awards that they must earn. The largest work program, the Federal Work-Study program, is administered on the campus level. Federal support for the program is used to pay a portion of a work-study student's salary, and institutions are required to dedicate a portion of their allocations to students working in community service jobs off-campus.

California has a small, General Fund supported work-study program administered on a limited number of California campuses. The program is funded at approximately \$5.3 million in 2000-01.

Support for financial aid in California

During the early to mid-1990s, increases in student fees and decreases in family income in California contributed to an increased demand for student financial aid. Because of these factors, the amount of financial aid awarded to California students has grown significantly. As Display 6 shows, both grant and loan aid has grown significantly. This increase in aid is all the more striking given that student enrollment in the State's public colleges and universities actually decreased by 4.7 percent between 1990-91 and 1997-98. This increased funding for financial aid was reflected in both the number of aid recipients, but also the average value of the aid provided to each recipient.

DISPLAY 6 *Amount of Student Financial Aid Received by California Students by Type of Aid, 1990-91 to 1997-98*



Number of recipients: An increasing number of students are applied for and receiving student financial assistance. For example, the number of Pell Grant recipients at California's public colleges and universities increased by 93 percent between 1990-91 and 1997-98. In 1997-98, over 340,000 students at California's public colleges and universities received a federal Pell Grant award. In addition, the number of students receiving need-based institutional aid at the State's public postsecondary education institutions also increased by 141 percent over the same period, with over 700,000 students receiving institutional grant assistance.

Further, the number of loan recipients also increased. At California's public colleges and universities, the number of recipients of federally guaranteed subsidized student loans grew by 120 percent between 1990-91 and 1997-98.

Average size of grant and loan aid: Both grants and loans have also been increasing in size. For example, between 1990-91 and 1997-98, the average need-based institutional aid per recipient increased by 91 percent at the University of California, by 82 percent at the California State University, and by 46 percent at the California Community Colleges

As previously indicated, not only are more students borrowing, but on average each student is borrowing more. For example, the average annual need-based student loan at the University of California increased by 18 percent, while at the State University the average grew by 36 percent between 1990-91 and 1997-98. For both UC and CSU students who accept such loans, they borrowed on average about \$4,000 in the 1997-98 academic year. Thus, despite increases in grant support, needy California students are typically facing higher debt burdens than needy students were a few years ago.

**California's
support for
college and
university students**

In considering the extent of State support for students as evidenced through financial aid programs, it is important to consider that just as the State's financial aid programs are only a part of the pool of available financial aid, they are also only a part of the State's investment in students. California supports all of its students attending public colleges and universities through General Fund and local property tax revenues. Display 7 shows instructional support per full-time equivalent student from General Fund and local property tax revenue resources in the State's three public systems of education. It illustrates that the State invests in far more students than just those receiving financial aid and invests far more in financial aid recipients than just their financial aid award.

DISPLAY 7 1998-99 State General Fund and Local Revenue Support for Instruction per Full-Time-Equivalent Student at California's Public College and University System

California Community Colleges	\$3,853
California State University	\$7,766
University of California	\$9,959

*Funding
administered
by the State:
Cal Grants*

Prior to the State's recent enactment of SB 1644 that revamps the State's Cal Grant program beginning in 2001-02, the State had a three-pronged policy on support for the Cal Grant program that was adopted in 1984 with the passage of Assembly Bill 4270, the so-called Bader bill. That policy addressed both the size of grants and the number that should be awarded:

- ◆ The number of new Cal Grants should equal 25 percent of the number graduating high school seniors.
- ◆ The maximum grant for students attending public institutions should cover student fees.
- ◆ The maximum grant for students attending independent institutions should equal the estimated average General Fund cost of educating a student at one of the State's public four-year institutions

The State's Cal Grant policy also called for implementing these three provisions in a balanced manner.

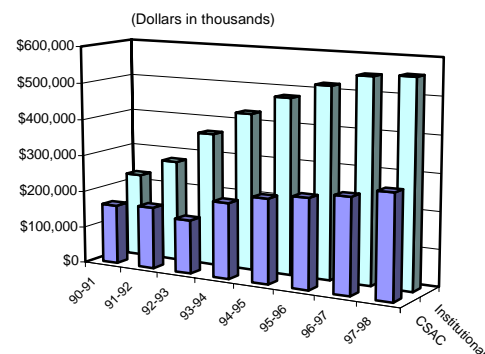
However, with the passage of SB 1644, the Cal Grant program has been significantly restructured. The attachment to this item outlines some of the major provisions relating to the new Cal Grant program. The Executive Director of the California Student Aid Commission, Wally Boeck, will provide the Commission with a brief overview of the provisions of the new Cal Grant programs.

*Funding
administered on the
campus level:
institutional grants*

The State's role in financial aid programs is not limited to the Cal Grant program. As the following section on aid administered at the campus level and Display 8 show, there is more State aid administered on the campus level than by the California Student Aid Commission.

Funding administered by the campuses has grown dramatically in recent years. While institutional aid used to be funded largely through General Fund appropriations, this is no longer the case. At the University of California and the California State University, past increases in student fees have contributed to increased demand for financial aid, and General Fund

DISPLAY 8 State General Fund and Fee Funded Grants Administered by California's Public Colleges and Universities and the California Student Aid Commission, 1990-91 to 1997-98



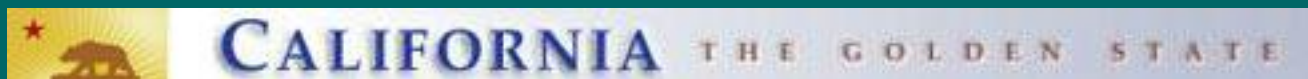
support for campus financial aid programs has not increased. The State University and University have then allocated a portion of the revenue gained from increases in student fees to support their financial aid programs. However, at both the State University and University, institutional aid is limited by the funding dedicated to support it.

The Community Colleges have seen a different type of change. While the Board of Governor's Grant program, through which fees are covered for needy students, was once supported through direct appropriations, that program is now a fee-waiver program. According to current law, all needy students must have their fees waived. Similarly, students who receive Temporary Assistance for Needy Families or grants through the Supplemental Security Income/State Supplemental Program or a "general assistance/general relief" program or meet specified income requirements are also eligible for fee waivers.

These changes in all three public systems have contributed to confusion about the level of support for student aid programs. Display 8 illustrates the level of funding supporting these programs and that substantially more aid is administered on the campus level than by the California Student Aid Commission.

Attachment

You may locate this attachment at www.csac.ca.gov/doc.asp?id=566



CALIFORNIA
STUDENT AID
COMMISSION

Latest Information on Cal Grants



Entitlement and Competitive awards

[News Release - September 11, 2000](#) 64kb



[2001-02 Cal Grant Comparison](#) 18kb



[2001-02 Cal Grant Program Summary](#)



- [General Eligibility Requirements](#)
- [Cal Grant A Entitlement Awards](#)
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- [Competitive Cal Grant A and B Awards](#)
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